

Post-Socialist Regions in the World System

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Abstract

Following the dismantling of the state socialist bloc, the new independent states sought a place in the world order in different contexts and state combinations. The paper considers different possibilities, and outlines the formation of regional post-socialist regions. The Russian Federation's past, present and possible future regional alliances are discussed. Russia's economic synergy is considered to be with the European Union. It is contended that Russia has been pushed towards the SCO and the BRICS by misguided Western policy. A movement to a more pluralistic world system is compared to the unitary paradigm of Wallerstein. The rise of a 'counterpoint' (a semi-core) to the hegemonic core is considered to be a geo-political alternative.

Key Words: regions, Russia, European Union, Eurasian Union, world system, Commonwealth of Independent States.

Globalisation of the post-socialist countries

After the dismantling of state socialism, the post-socialist countries entered the world economy. This was a goal shared by modernizers in the Soviet Union and the socialist states of central and eastern Europe who believed that joining the world economy would act as a stimulus to development. Progress would be achieved not only through market mechanisms displacing the moribund forms of Soviet-type planning but also by inserting the socialist states into a more advanced scientific and innovative world capitalism. 'Joining the world economy' however involved significant changes not only in the internal politics of the socialist states to make them compatible to the capitalist world order but also in international alignments. The depth and width of their participation also defined the extent of their globalisation. The full implications of dismantling the structures of state socialism had not been seriously considered by those advocating radical reforms.

Four major theoretical scenarios presented themselves. Firstly, a reformed socialist bloc keeping the existing institutions in place; secondly, the dissolution of the regional socialist

associations (the Warsaw Pact and the CMEA - Council for Mutual Economic Assistance) and the participation of post-socialist countries as sovereign states in the world system as independent national actors; thirdly, the installation of the post-socialist countries into the existing economic and political blocs of NATO and the European Union; and finally, the formation of a new economic region, possibly in association with rising capitalist countries currently excluded from the hegemonic core, such as China and India. Each of these approaches makes assumptions about the ways in which the world system of states operates and how a reformed socialist system or a post-socialist system would be able to flourish.

Coexistence of a Reformed Socialist Bloc

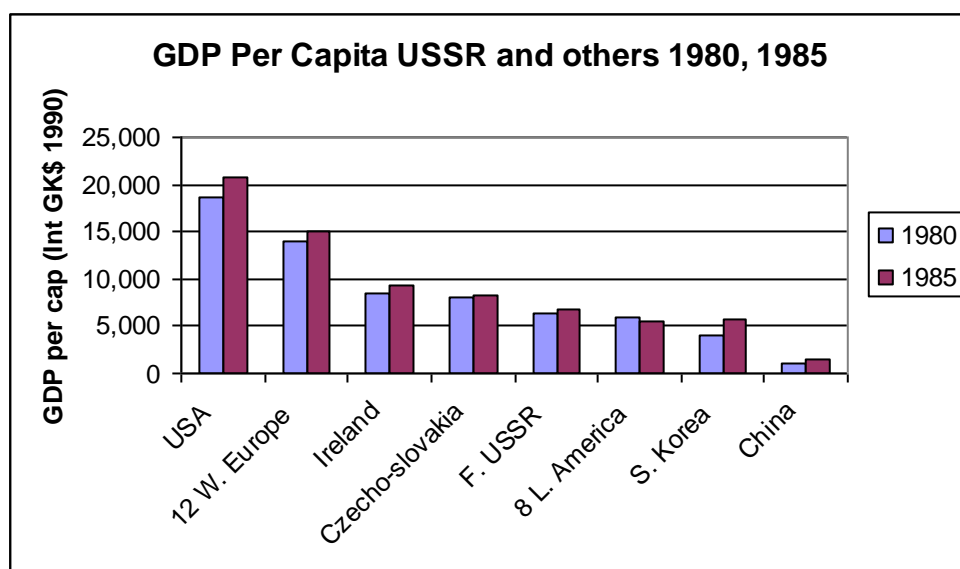
The first scenario is predicated on the assumption that markets would develop both within and between members of the state socialist bloc under the reforms promised in Gorbachev's perestroika proposals. It was also widely thought (in the West as well as in the post-communist countries) that the Warsaw Pact and NATO could eventually be disbanded in favour of strengthening the pan-European Conference on Security and Cooperation in Europe (CSCE). The reasoning behind this thinking was that the more pluralistic reformed post-socialist states no longer posed a strategic threat to the capitalist countries and thus undermined the basis of the Warsaw Pact and NATO.

The economic reforms underpinning the perestroika programme also provided assurances of movement to an open competitive market economy. In this context, the CMEA countries could have continued in a trading block based on the principles of the GATT/WTO the membership of which the reform leaderships aspired. Free trade with third parties could have taken the shape either of a customs' union, or bilateral trading links could have been instituted with other trading nations. Either of these courses, though to different degrees, would have retained the existing pattern of trade and production whilst leading to a gradual re-orientation to world markets. CMEA was organised as a regional concern on the basis of planning and the development of national economies. Unlike the European Community, it was not market driven. Its internal organisation would have required considerable changes to make it compatible to a neo-liberal market model, though it could have continued as a region with a state-led developmental strategy.

Such a scenario had some economic merit. The European socialist states had secured successful comprehensive economic and social development following the Second World War. It was capable of reform and development – moves to the market and a more pluralistic political system were components of such reforms. Figure 1 shows GDP per capita for different economies in 1980 and 1985 expressed in international GK dollars (1990 base)¹ (Maddison-Project, 2013). The USSR in 1985 was certainly poorer than the average West European country, though it also included relatively undeveloped agrarian Republics in central Asia. The more advanced East European states were comparable to the poorer West European ones as illustrated by the comparison of Czechoslovakia and Ireland. The advocates of reform believed that they could secure a qualitative improvement in economic efficiency and growth.

What is of now of considerable relevance is that the European socialist states were very much in advance of eight Latin American countries (average), South Korea and China which later made spectacular advances.

Figure 1. USSR GDP in Comparative Perspective: 1980 and 1985 (Maddison-Project, 2013).



GK international dollars

¹ GK international dollars. The Geary–Khamis dollar is a measure similar to purchasing power parity. In this source data use as a base the purchasing power of the U.S. dollar in 1990 (Maddison-Project, 2013).

Central Europe: From National Capitalism to the European Union

Following the dismantling of the state socialist system, such within system reforms were not adopted. In the initial break-up of the socialist bloc, it was assumed that nation states are sovereign and act autonomously to promote their own interests. The transformation of the socialist states involved the privatisation of state assets and the assertion of national independence. Both of these developments led to strengthening the identity of the 'New Independent States' and weakened any moves to regionalism which would have compromised their sovereignty.

Initially, the post-socialist states of central Europe embarked on the promotion of a national form of capitalism. Their moves to the Western market and the opening of their economies to Western investment occurred concurrently with the breaking of links between the socialist states which involved a network of contracts and markets.

However, the post-socialist central European states were simply too weak economically and too small spatially to operate as effective economic entities when exposed to the capitalist market. Jan Drahekoupil has shown how attempts in central Europe to create forms of national capitalism failed (Drahekoupil, 2009).

A major group of central European countries (initially the Visegrad countries) looked for economic integration with the European Economic Community and for strategic security in NATO. From the post-socialist countries' points of view, any continuation of the Soviet-type economic and political framework was incompatible with their political and ideological objectives of joining or rejoining their European home. Their economic purpose was to build a capitalist market system optimistically in a neutralized and peaceful Europe.

The spokesmen for the post-socialist states of central and eastern Europe (CEECs) cloaked their political motives in idealist terms. The symbolic attraction of a return to their 'European home' would be a sharp break with the Russian dominated Soviet past. 'Europe' would be a positive form of identity: economically rich, and culturally civilized. 'Joining democracy' would secure peace, as democracies did not engage in wars (at least not with each other).

Membership of the European Union would be economically beneficial. It would increase the size of the market, liberalize trade by reducing tariffs and increase foreign direct investment.

There was also a dose of political realism in ‘a return to Europe’. After dismantling the Warsaw Pact and CMEA and the fragmentation of the Soviet Union into 15 nation states, the weaknesses of the resulting post-socialist European independent states were exposed. The European post-socialist political and economic elites were fairly united in supporting a move towards integration with the EU. At best, the CEECs would achieve political and economic stability and a rising standard of income. At worst, it was better than staying out.

However, the European home was not a collection of individual nation states but a regional bloc, organised in the European Economic Community (the European Community in 1993) which became the European Union in 2009 under the Treaty of Lisbon. (In the following I use the term European Union (EU) to cover all its titles). The membership of this association required a reversal of the national state centered developments initiated by the reforming elites; such countries were required to adopt the regional norms and to become structurally compatible to the institutions of the European economic bloc. This was legitimated in terms of a ‘return to European values’.

The leading Western states – prompted by economic and geo-political interests – sought to accommodate the central European post-socialist states within these institutions. An economic and political union between the post-communist states and the EU would ensure that their economic and political institutions and processes would be compatible with the economic and political structures of global capitalism. Both NATO and the EU had complementary policies towards the new independent states which had to meet conditions for membership.

From the 1990s, an early differentiation of the former communist states occurred. European Agreements were concluded between the EU and the central and east European countries (CEECs). As early as December 1990, the EU negotiated with Czechoslovakia, Hungary and Poland on the content of the Agreement which was signed with these states in December 1991. The Agreements aimed to regularize relationships between the EU and the CEECs and

were conducted between the EU and each country. They covered free trade, financial and technical assistance, energy, environment and communications. But that was not all. They also included the formulation of laws compatible with the single market which particularly affecting state subsidies, and freedom of competition.

The objective was to tailor the recipient states to the goals of the EU – the free movement of capital, commodities, services and people. Consequently, they influenced the political and economic changes taking place in the CEECs in the direction of compatibility with EU relations. The PHARE programme (Poland and Hungary: Assistance for Economic Reconstruction – later extended to other countries) was introduced in 1990² (Mannin, 1999, pp. 38-9). Technical assistance was later widened to include political and economic structures compatible with a market economy. From 1992, conditionality required the recipient states to promote a market economy, democratic competitive electoral practices, human rights, and the rule of law.

Membership of the European Union followed when states had met the requirements of the *Acquis Communautaire*. The European Union embarked on a relentless policy of enlargement. In 2004, the EU15 became the EU25 with the addition of the central European post-socialist states, then the EU27 in 2007 and finally, with the accession of Croatia in 2013, the EU28. EU dialogue legitimated the expansion in terms of well-being and military security. As democratic states did not fight each other, enlargement was a contribution to peace. Economically, a wider market provided opportunities for investment and would stimulate sales and profits. Based on a neo-liberal conception of political economy, the free movement of goods, services, capital and labour would promote economic well being. By the same logic a state-led form of developmental capitalism was precluded.

The implication here is that the European Union would also be strengthened as its borders would widen and its laws would prevail over hitherto sovereign states. The newly independent CEECs had to acquiesce to limitations on their sovereignty. The post-socialist societies were no longer ‘sovereign’ states but ‘member’ states of the EU. Ironically, perhaps,

² Financial support in 1990 this totalled 494 million ECU and 1996, 1,223 million (Mannin, 1999).

having opposed the hegemony of the USSR, the newly independent CEECs had to acquiesce to limitations on their independence required by the economic and political conditions imposed on prospective members of the EU. In many ways the conditions were worse. In the Soviet CMEA, policy was predicated on national development which in the post war years had been successful, whereas in the European Union, neo-liberalism was grounded on free-market competition in which the weak succumbed to the power of the strong. The European Union form of regionalism was not designed to support any state based national development strategies. The thrust of the conditionality of the Acquis was to promote market competitiveness of the post-socialist states and to insert their economies into the world economy within the framework of a neo-liberal regional European bloc.

The impact of the EU was to the advantage of the core of the old member states. Taking advantage of cheap assets in the form of labour and capital, foreign investment poured into the central European states. Much of this was portfolio investment which purchased assets in state ownership, which we consider further below. Foreign investment led to the return of profits as well as products to the home countries. As we see from Table 1, by 2009, the origin of imports, and destination of exports of the New Member States, was predominantly from, and to, the European Union. Russia was still a considerably trading partner, but far less dependent on the EU than the New Member States. Exports to the EU from Czech Republic, Hungary and Poland are respectively 86%, 78% and 78% of the total; whereas their exports to Russia come only to 2.7%, 3.6% and 5% per cent respectively. Similar figures apply to Estonia, Latvia and Lithuania, though Russia is slightly higher in their export profiles (15%, 10% and 16%, respectively). Imports have a similar pattern. Czech Republic, Hungary and Poland import 67%, 68% and 62% respectively from the EU; and only 5%, 9% and 10% from Russia. This pattern is repeated in the Baltic States, according to the data for 2009 from the WTO database.

Table 1. The European Union as Destination and Origin of the New Member States Exports and Imports (Per cent of total exports and imports) 2009.

		Destination of exports (%) from							
		Ukr	Rus	CZ	Hun	Pol	Est	Lat	Lith
To	EU	27	57	85	78	78	63	73	60

Rus	24		2.7	3.6	5	15	10	16
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Origin % of Imports to:

		Ukr	Rus	CZ	Hun	Pol	Est	Lat	Lith
From	EU	34	44	67	68	62	60	76	58
	Rus	23		6	9	10	10	11	30

Source: WTO database, data for 2009 (WTO, 2015).

Thus a divergent path opened up between the central European post-socialist countries and the states of the former Commonwealth of Independent States. The New Member States were incorporated into the institutional core of the world economic order; they were essentially subordinate to, and dependent on, the hegemonic members of the EU15.

The CIS Path to the World System: Joining on the Fringe

The former republics of the Soviet Union (except the Baltic Republics) remained as independent nation states in the world system forming alliances in an ad hoc manner. Major policies underpinning reforms in, and later the transformation of, the USSR were intended to ensure Russia's acceptance in the political order of the West. Like the central European radical reformers, President Mikhail Gorbachev's intention was for the USSR to 'rejoin its European home'. Boris Yeltsin's objective was to ensure that Russia would be a full and accepted member of the economically advanced capitalist nations. Following economic developments in the central European post-socialist states, in the early 1990s under President Yeltsin, Russian policy favoured moving towards ever closer links with, and even membership of, the European Union. At his meeting with EU leaders in Corfu in June 1994 (at which agreements were signed with Austria, Finland, Norway and Sweden anticipating their joining the EU in 1995), Yeltsin declared that Russia's accord with the EU was 'an historical document which will allow us to continue a course toward entering Europe and abolish the discrimination that took place in the past. We move forward as equal partners towards our mutual interest (Moscow Times, 1994). A theme visited many times by post-communist Russian leaders is the notion of a 'new Europe' united with Russia which would become 'a dominant force' in the world (Chicago Tribune, 1998).

While the Treaty of Rome provided that any European country could apply for membership of the European Economic Community, it became increasingly clear that Russia, for economic, political and cultural reasons, was not going to be considered. Exceptionally, British Prime Minister John Major envisaged a Europe stretching to the Urals, and Silvio Berlusconi, when EU President in November 2003, at the EU summit with Russia, advocated Russia's membership. EU policy makers, however, have been cautious (Emerson, 2005) and the EU has concluded bi-lateral agreements with Russia. These are based on the Partnership and Cooperation Agreement (PCA), signed in June 1994. The agreement seeks to further joint activity on four areas: a common economic space, a space of freedom, security and justice; co-operation in the field of external security; and the promotion of joint projects in research, education, and cultural exchange. While Yeltsin envisaged an 'equal' union, the conditions attached to many EU proposals have entailed neighbouring states adopting EU values, standards and procedures.

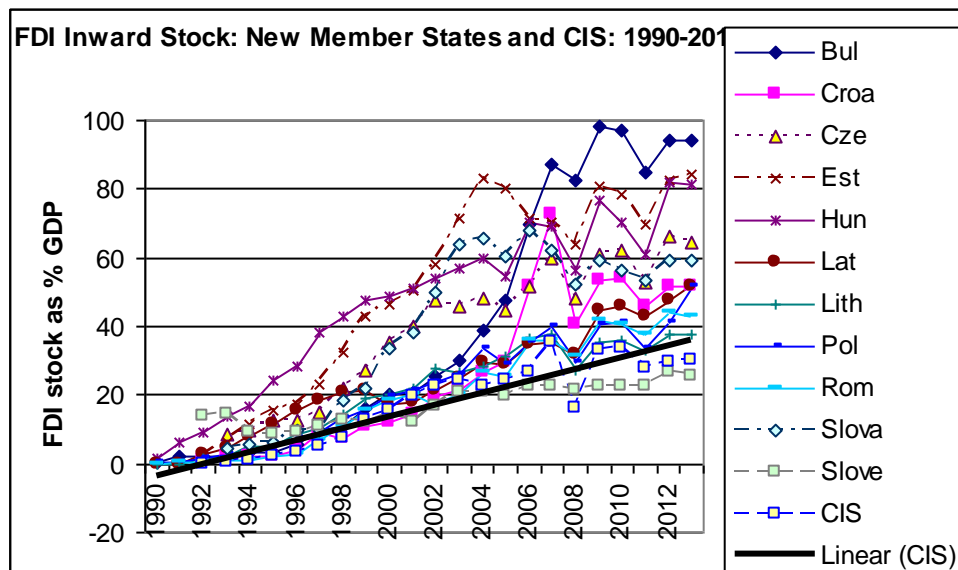
Following the dismembering of the Soviet Union, the Russian Federation's major foreign alliance has revolved around the Commonwealth of Independent States (CIS) which was formed in December 1991. This initially brought together the Republic of Belarus, the Russian Federation and Ukraine, and later Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan and Uzbekistan; Georgia joined in 1993. However, many of these countries including Ukraine, which formally left the association in March 2014, have had little active presence in the CIS. While a number of significant multinational agreements have been made, the CIS remained a very weak association of states with little economic and political weight. Unlike the EU, the CIS countries preserved considerable state sovereignty and did not form an economic or political union. The association preserved some of the functions of the Soviet system – agreements over customs' control and air traffic control, for example. It convened meetings between the military and security forces and coordinated services against terrorism. It also promoted exchanges in the sphere of culture and education and formed the International Association of the Academies of Sciences. Further developments along the lines of the EU were proposed to include greater mobility of capital and labour within the CIS. In 1993, a CIS Economic Union Treaty was signed which envisaged setting up a free trade area. While many multilateral agreements have been concluded, the CIS has lacked effective forms of enforcement and lapsed into a consultative

forum between its members. Such forms of discussion should not be completely dismissed as they provided for the exchange of views as well as a rudimentary type of socialization of the countries' elites in the face of common problems.

The difference between the central European countries headlong marriage with the regionalism of the European Union and the reluctance of the CIS countries to regionalize is due to the different weight of national and international interests in shaping policy. The newly independent states of central Europe did not form a separate political bloc. They not only lacked a hegemonic regional power but also sought to preserve their own political independence which they believed would be preserved by membership of the EU.

They became highly penetrated by foreign capital. Foreign investors were able to buy industrial and commercial assets in the former socialist states. The massive FDI in what have become the New Member States compared to the CIS between 1985 and 2014 is shown in Figure 2. Hungary and Czech Republic in 2002 had an inward stock of FDI in excess of 50 per cent of their GDP, whereas the average for the CIS states was some 15 per cent. Bulgaria, one of the latest additions, had an enormous inflow of FDI being 100 per cent of GDP in 2010. All the NMS shown on Figure 2 (with the exception of Slovenia after 2006) are above the trend line for the CIS states.

Figure 2. FDI Inward Stock: New Member States of the EU and CIS average 1990-2014 (% of GDP). Source: UNCTAD.

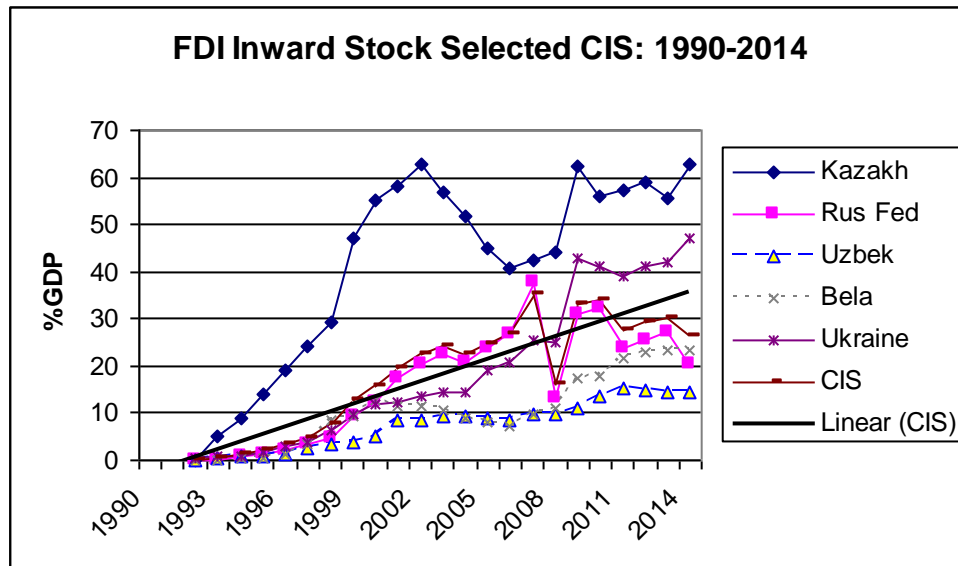


FDI brought foreign investors, entrepreneurs and executives. Such interests were external drivers of internal policy. Membership of the EU was a guarantee of the security of property, a reliable currency and a hospitable labour environment for business. The reformist domestic political elites were opposed to state intervention and favourably disposed to the market, especially when linked to a return to their European home. The image of the European Union was positive and, if powers were to be lost to it, it was less threatening (they thought) than to the successor state to the Soviet Union – the Russian Federation.

In the CIS states, there was a less fertile soil for foreign investment. Not only geography deterred foreign investment, but the political and economic elites were more domestic in character. They had been privileged by the privatisation process and were more nation-statist in orientation. Excluding the owners of large energy companies (which were concentrated in Russia and Kazakhstan), they lacked any incentive to move the state towards a wider regional grouping. The drivers of regionalism in the CIS were the state leaders who looked to a wider regional association for defence and security purposes in addition to the advantages of a larger market. Russian transnational companies, such as Gazprom, were able to pursue their global plans of expansion independently of the CIS. As we note in Figure 3, above the trend line of the CIS (based on the average of all CIS states) are the two major energy-exporting

countries (Russia and Kazakhstan). Russia has been in the forefront of moves to greater participation in the European Union, though its Russian-based business class has resisted the EU's terms. It is notable that Ukraine after the events of the coloured revolution in 2008 moved considerably above the CIS trend line as the leadership of Yushchenko then pushed for EU membership and encouraged Western investment to this end.

Figure 3. FDI Stock in Selected CIS countries, 1990-2014 (% of GDP)



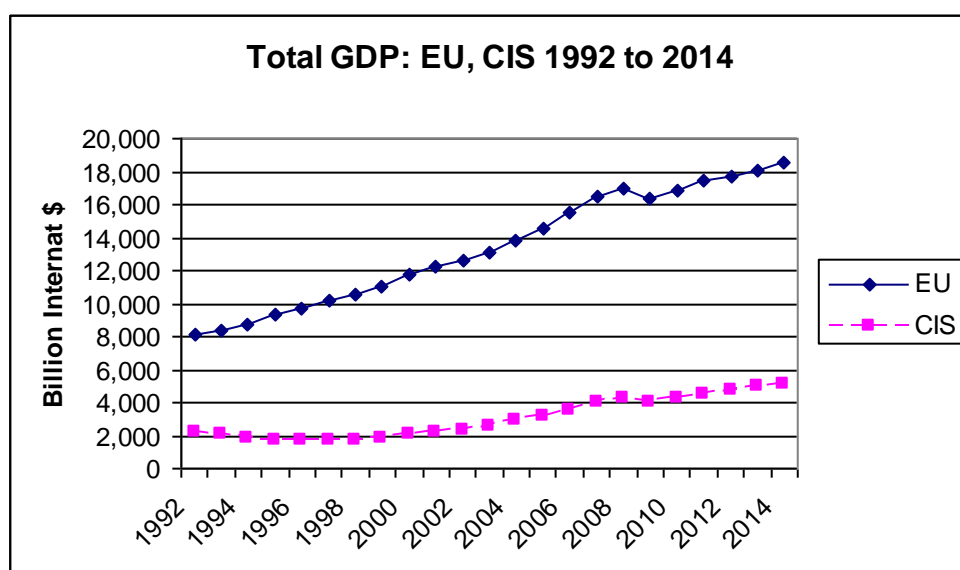
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The CIS states were much less economically developed than the central European post-socialist states. Figure 4 illustrates the gross domestic product (in purchasing power parity) of the CIS countries from its inception in 1992 compared to the 28 countries forming the European Union¹. We note a very considerable and growing quantitative gap between the two groups. There were also political differences. Unlike in the EU where the New Member States would be in an association led by benign foreigners, in the CIS the dominant power economically and politically was Russia. As the legitimacy of the new independent post-socialist states was predicated on independence *from* Russia, making a firm regional alliance ideologically and politically was much more difficult. An ideological base, which might have been provided by Eurasianism had few advocates in the Soviet Union and was little known in the early transformation period³ (Bassin, Glebov and Laruelle, 2015). The liberal outlook of

³ Eurasianism was an ideology developed by Russian speaking people abroad and had little

the post-Soviet elites as well as the national basis of the new regimes retarded the reformulation of a region based on the boundaries of the USSR. Ironically perhaps, it was much more difficult for Russia to lead and implement a new regional association than the European Commission in Brussels. Moreover, Brussels had its own plans which included forms of cooperation promising some CIS countries (for example, Ukraine) future membership. Even Russia under Yeltsin had yearned for a positive economic and political alliance with the EU – a desire, as we shall see, endorsed by the Putin leadership. All these factors hindered the formation of an effective regional organisation made up of states constituting the Commonwealth of Independent States.

Figure 4. Total GDP: EU28, CIS 1992 to 2014 (International dollars) (IMF WEO, 2015).
Purchasing power parity (Current international dollars)



With the CIS proving to be an inadequate basis for a positive geo-economic unit, the Russian leadership has had to re-consider its wider economic and strategic alignments. There are three major strategic and geo-political ways forward: the creation of a Eurasian Economic Union; the enhancement of links with the European Union; and the formation of a transcontinental economic bloc, the BRICS (composed of Brazil, Russia, India, China and South Africa).

The Eurasian Economic Union and the European Union

Given the lack of success in securing enhanced agreements with the West, under President Putin a 'return to the East' has figured in political rhetoric. The Eurasian Economic Community (Kazakhstan, Belarus, Tajikistan and Uzbekistan, though the latter left in 2008) was formed in October 2000, followed by the formation of the Collective Security Treaty Organisation in 2003. A Single Economic Space agreement came into effect between Russia, Belarus, Kazakhstan and Ukraine in 2003. Its effectiveness was blunted by Ukraine's insistence on agreements which would not preclude participation in the European Union. It was replaced by the Single Economic Space of Russia, Belarus and Kazakhstan which came into effect in 2012. In January 2015, these three countries formed the Eurasian Economic Union – later joined by Kyrgyzstan and Armenia. The Eurasian Economic Union (EEU) has

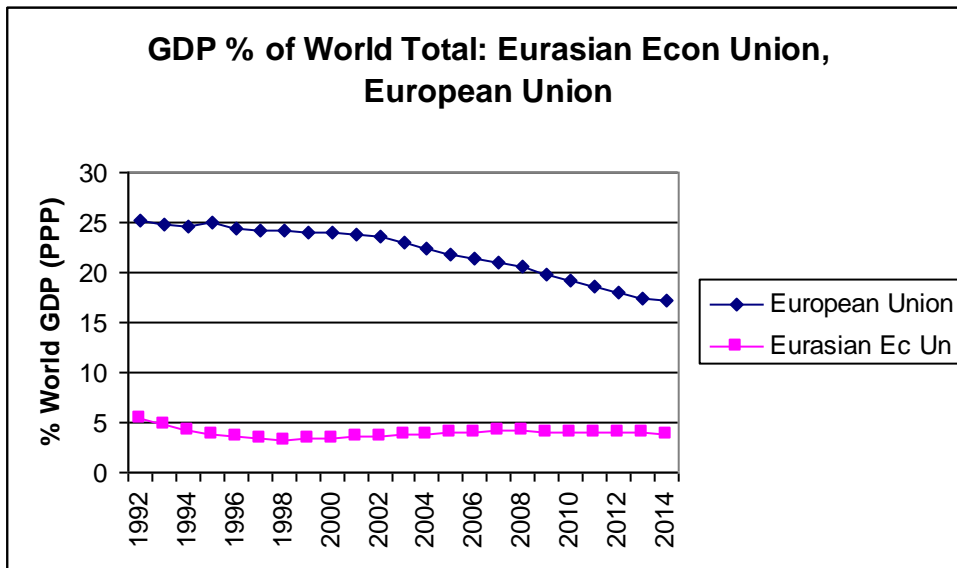
been guided by the EU's experience and likens itself to it. It seeks the advantages of economies of scale provided by a larger market. It aspires to the EU's aims of the free movement within its territory of labour, capital, goods and services. It respects the free trade market principles of the WTO.

Like the European Union, underlying the formation of the EEU is a wider political and geopolitical agenda which uneasily coexists with its free market economic principles. The longer-term intention of some Eurasianists is to further a quite distinct form of political organisation to that of the current neo-liberal world political and economic order. Their goal is to preserve and enhance the economic potentiality of its member states, which involves shelter from competition from the world market – which in practice means Western transnational companies.

The policy of the Russian Federation under Putin and Medvedev entailed a major change towards the West which infringed some established Western assumptions. In its Foreign Policy Concept (2000), Russia's objectives were said to preserve the sovereignty and territorial integrity of the country. It noted critically 'a growing trend towards the establishment of a unipolar structure of the world with the economic and political domination of the United States.' It identified 'attempts to create an international relations structure based on domination by developed Western countries in the international community, under US leadership and designed for unilateral solutions (including the use of military force) to key issues in world politics in circumvention of the fundamental rules of international law'. Consequently, Russia has strengthened its control over strategic industries and has challenged Western political intervention in Ukraine and the Middle East.

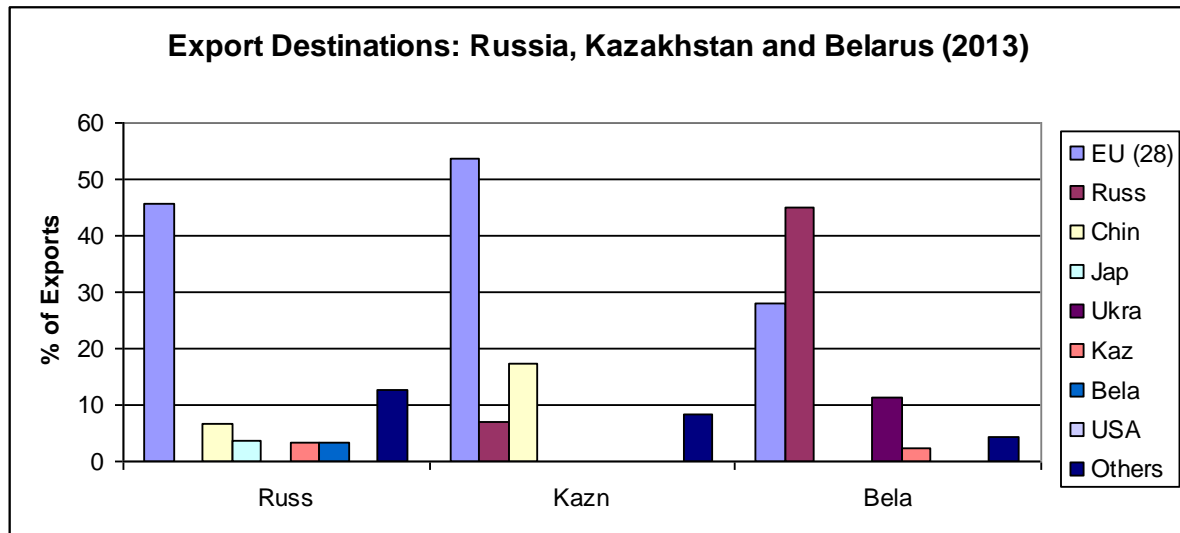
The Eurasian Union, however, is a significant but relatively weak economic player in the world economy. As illustrated in Figure 5, though the gap between the EU and the countries of the Eurasian Economic Union has declined somewhat since 1982, in 2014 the latter contributed less than 5 per cent of global GDP compared to 17 per cent of the European Union.

Figure 5. Share of World GDP: Eurasian Economic Union and the European Union (IMF WEO, 2015). Data PPP in current international dollars.



Russia has particularly strong links to the countries of the EU. Russia's trade both in origin and in destination is dominated by the European Union. As illustrated in Figure 6, only Belarus has a significant export trade with others (Ukraine). It is notable that even China is a minor recipient of EEU exports; only Kazakhstan contributes some 18 per cent of its exports to China.

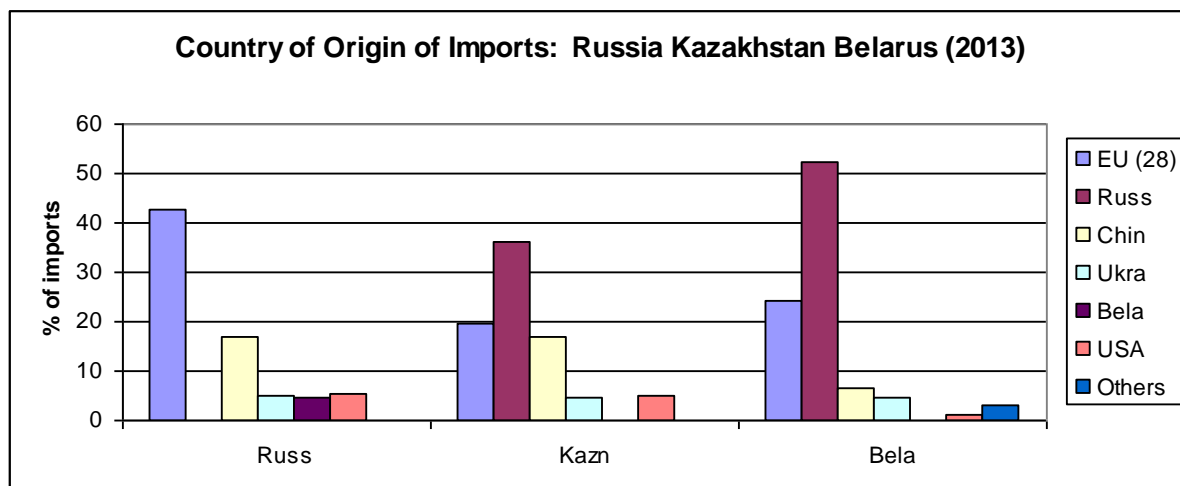
Figure 6 Eurasian Economic Union: Export Destinations of Goods and Services 2013.



Source: WTO database, data for 2013 (WTO, 2015).

Imports tell a similar story for Russia (see Figure 7) – the EU is by far the major supplier. Kazakhstan and Belarus are somewhat different being highly dependent on Russia after which the EU contributes 20 per cent and 25 per cent of the imports of Kazakhstan and Belarus. There is then an asymmetrical relationship between the three EEU countries with Russia importing very little from Kazakhstan and Belarus.

Figure 7. Eurasian Union: Import origin of Goods and Services (2013).



Source: WTO database, data for 2013 (WTO, 2013).

President Putin, basing his argument on common membership of the WTO, has contended that both the EU and Eurasian Union should forge a wider pan European association. Here we return to the theme of a stronger linkage with the EU as advocated by Yeltsin. On 26 November 2010, Putin proposed the formation of an association which would promote a 'greater Europe' from Lisbon to Vladivostok. As recently as January 2014, Putin suggested to Brussels the establishment of a Free Trade Area between the EU and the Eurasian Union (Lavrov, 2014). A year later in January 2015, in a press interview, Vladimir Chizhov, the permanent Russian Representative to the EU, opined: 'Our idea is to start official contacts between the EU and the EAEU as soon as possible. Chancellor Angela Merkel talked about this not long ago. EU sanctions are not a hinder (sic). I think that common sense advises us to explore the possibility of establishing a common economic space in the Eurasian region including the focus countries of the Eastern Partnership. We all have common interest'. He contrasted the EU's enthusiasm for improving trade links with the USA with its reluctance to be flexible with Russia, despite its overwhelming trade interest (Chizhov, 2015).

While this has been either ignored or dismissed, it does have some merit. It might be likened to the relationship of the European Free Trade Area with the European Union. The EU has negotiated separate agreements with Turkey, Norway, Iceland, Switzerland and even Singapore which promote favourable trade relations. Negotiations between the European Union and the USA over the Transatlantic Trade and Investment Partnership are another example of how cooperation is possible between two commercial blocs. Such negotiations include bilateral and multilateral agreements on tariffs and public procurement, cooperation on regulatory agreements and the enhancement of bilateral trade. Like the EU, the Eurasian Union is to be built on the laws of the market and global competition under the rules of the WTO. The Russian leadership would envisage the Eurasian Union becoming 'one of the poles of the modern world and would enable forms of collaboration from 'the Atlantic to the Pacific Ocean' (Putin, 2011).

Russian policy is systematized in The Foreign Policy Concept of the Russian Federation 2013, approved by President V. Putin on 12 February 2013. The underlying thinking is that global development should work within regional and international associations. '... Russia will increase its participation in such formats as the Group of Twenty, BRICS (Brazil, Russia,

India, China and the Republic of South Africa), the Group of Eight, the Shanghai Cooperation Organization, the RIC (Russia, India and China) alongside other organizations and platforms for dialogue' (paragraph 30).

In a key paragraph the concept states that Priority areas of Russian foreign policy include the development of bilateral and multilateral cooperation with the CIS Member States, further strengthening of the CIS as a basis for enhancing regional interaction among its participants who not only share common historical background but also have great capacity for integration in various spheres (Paragraph 42). The Eurasian Economic Union '... is being formed on the basis of universal integration principles and is designed to serve as an effective link between Europe and the Asia-Pacific region'. Russia is considered a European country. 'In its relations with the European Union, the main task for Russia as an integral and inseparable part of European civilization is to promote creating a common economic and humanitarian space from the Atlantic to the Pacific' (Paragraph 56). Russia stands for signing a new Russia-EU framework agreement on strategic partnership based on the principles of equality and mutual benefit. A long-term objective in that area is to establish a common Russia-EU market' (Paragraph 57).

The Concept devotes a section to regional priorities in which Paragraph 42 states that 'Priority areas of Russian foreign policy include the development of bilateral and multilateral cooperation with the CIS Member States, further strengthening of the CIS as a basis for enhancing regional interaction among its participants who not only share common historical background but also have great capacity for integration in various spheres'. Moreover, in paragraph 44 we learn that 'Russia sees as a priority the task of establishing the Eurasian Economic Union aiming not only to make the best use of mutually beneficial economic ties in the CIS space but also to become a model of association open to other states, a model that would determine the future of the Commonwealth states. The new union that is being formed on the basis of universal integration principles is designed to serve as an effective link between Europe and the Asia-Pacific region'.

These statements highlight a major dimension of policy of the Eurasian Economic Union with the EU. Namely, the promotion of a multi-polar Europe which would involve overlapping areas of autonomy. Such regional associations would not be part of a political

union but would have mutually advantageous links as provided for under the Partnership and Cooperation Agreement (PCA). The Russian leadership seeks a partnership but not on the EU's terms entailing the adjustment of internal values and institutions to conform to those of the EU.

While a free-trade regime would continue, the countries of the Eurasian Economic Union would be shielded by its boundaries from more powerful forces in the European Union. From the viewpoint of the EU, such an agreement would further complementary trade policies: the EU exporting manufactured goods and importing raw materials, especially fuel. In 2013 Russia was a major commercial partner of the EU: outside internal EU destinations, Russia is the fourth largest export market (6.8%) and the second largest import client (12.2%) (WEO, 2015) coming after China which has 17 per cent.

The synergy between the EEU and the EU, at least economically, is considerable. Greater economic integration would promote political integration enhancing conditions for peace, which is a major goal of the EU. Jozsef Borocz has suggested that the motivating force behind the EU's enlargement has been to maintain its world 'market share' of GDP (Borocz, 2015, pp. 20-23). This line of argument has been substantiated by Claude Serfati who has shown that profits in the non-financial sector have fallen in the EU since 2007 due to the underutilisation of labour and machinery (Serfati, 2015, p. 2). From this point of view the EU, if it pursues positively stronger links with the Eurasian Union, would secure a substantial market for its manufacturing exports as well as a protected source of imports of raw materials. The wager on Ukraine, which had a negligible proportion of its trade and was a liability as an energy supply conduit, has been a costly blunder. EU policy, which is not our concern here, was unduly influenced by geo-political interests and especially by the concerns of the USA.

The future relationship between the EU and the EEU is clouded due to the contradictory values and interests within both geo-political blocs. On the one hand, the EEU is an institution to be modelled on the European Union with its concern for the free movement of goods, services, capital and labour. On the other hand, many consider it concurrently to be a vehicle to move to a state-led economy exerting different degrees of control. In its least radical form it would be a 'stepping stone' towards the existing neo-liberal global system, another regional neo-

liberal bloc.

Russian writers, such as Vinokurov and Tsukarev, envisage the EEU's long-term economic cooperation to lie with the EU and China (Vinokurov and Tsukarov, 2015) – they see Russia standing on the two legs of the European Union and China. An acceptance of neo-liberal market relationships would move the project towards inclusion in the present global system and could be a complementary regional bloc to the European Union. But a partnership between the Eurasian Economic Union and the EU is perhaps a visionary scenario, as it would require the reversal of many current EU policies. The EU has rejected a closer agreement with Russia unless neo-liberal policy conditions and Western values are accepted. The EU would have to modify its current expansionist and inclusionary policy to accommodate other regional interests with different values and institutional arrangements.

Other critics of moving in an EU direction point out that the history of economic exchange between the EU and Russia has not shown beneficial results for Russian industrial development. The EU has maintained its superiority in high value added manufacturing. The current economic mechanism will doom the EEU to a subordinate position as an exporter of primary sector goods. If this is the case, the EEU should look elsewhere: participation in value chains to the east might present greater opportunities for successful development.

The Eurasian Union's path to the world system as a component part based on neo-liberal economic principles has been effectively closed off by Western policies. The Chinese leg should provide a stronger one to stand on as the European Union has shot itself in the other leg. The foreign policy stance of the USA echoed by the EU to Russia, particularly over Ukraine, may have been a tipping point.

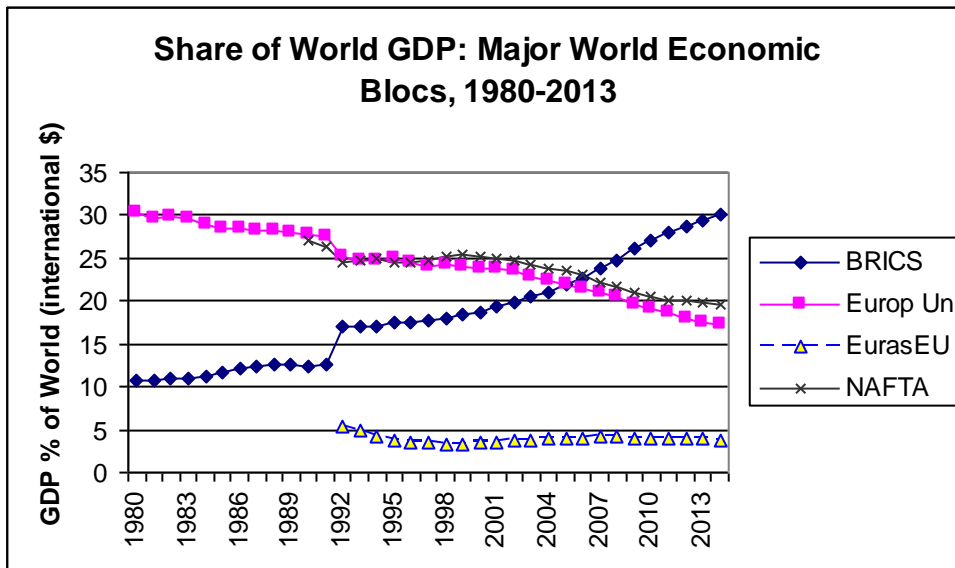
In the absence of such a negotiated settlement bringing the EEU into closer alignment with the hegemonic core, the alternative is the development of a competing geo-political bloc. The Eurasian Economic Union is more likely to evolve as a 'counterpoint', relying on greater state coordination and regulation economically under an autocratic political system. However, the EEU cannot be effective on its own; it is economically too weak to mount a very serious challenge to the European part of the hegemonic core. Its share of global GDP is only 4 per cent

(IMF WEO, 2015). To build any significant alternative to the neo-liberal global order, it would need to combine with countries in other semi-core countries.

Rise of a Competing Geo-Political Bloc

Since the Ukrainian conflict the Russian leadership has given more emphasis to linkages with the Asian-Pacific area and has strengthened ties to groupings such as the Shanghai Cooperation Organisation and the BRICS countries. A consequence of misguided Western policy has been to push Russia to the East – economically and politically.

Figure 8. Proportion of world GDP 1980-2014: BRICS, European Union, Eurasian Economic Union and NAFTA. Purchasing power parity (Current international dollars).

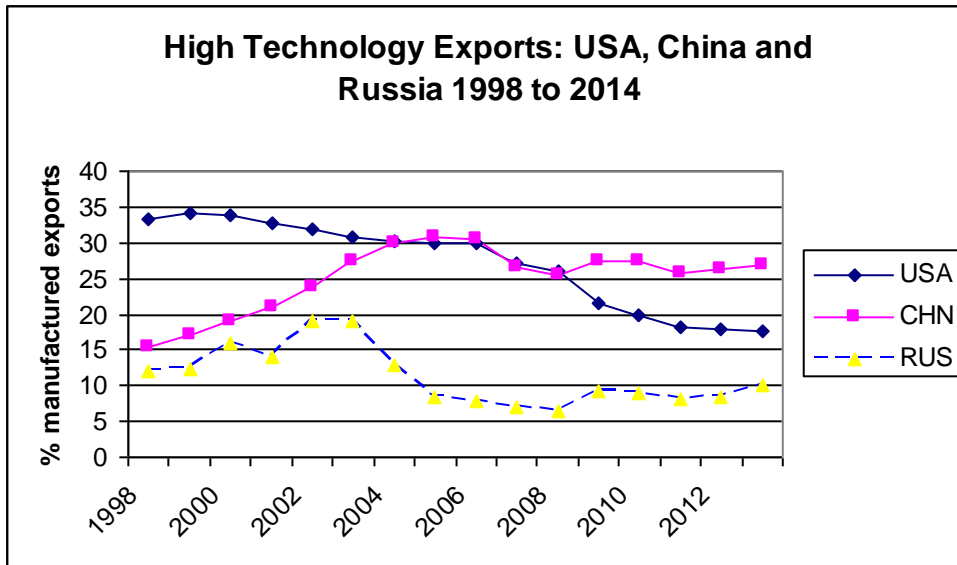


Source: IMF World Economic Outlook Data Base, 2015.

<https://www.imf.org/external/pubs/ft/weo/2015>. Purchasing power parity (Current international dollars).

The decline in the world share of GDP for the USA and the phenomenal rise of China has led to the formation of four major economic groups which are shown on Figure 8. We note the economic decline of NAFTA and the EU against the rise of the BRICS countries. The export of value added manufactures is also an index of economic dynamism. The United States has also experienced a decline in its value added exports. As we note from Figure 9, US exports of high technology products (as a proportion of all manufactured exports) declined from 2000 in the face of the rise of Chinese manufactured exports.

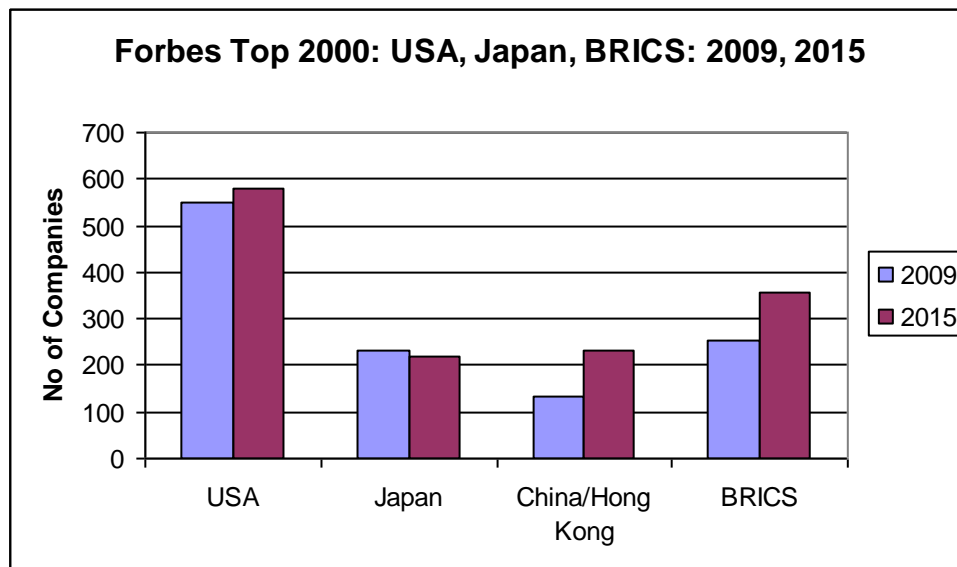
Figure 9. High Technology Exports; USA, China and Russia 1998 to 2014



High technology exports as per cent of manufactured exports (WB, 2015).

Another robust measure of the declining power of the Western core countries is the number of companies listed in the top 2000 world companies. The Forbes List measures the strength of companies in terms of four variables: sales, profits, assets and market value. The changing pattern between 2009 and 2015 is captured in Figure 10 which compares the number of companies in the top 2000 for the USA, China and the BRICS countries combined.

Figure 10. Number of Companies in the World Top 2000: USA, Japan and BRICS: 2009 and 2015.



Measured by aggregate of sales, profits, assets and market value (Forbes 2000).

The changing pattern of world economic power is shifting away from the Western dominant core. By 2015, Asia had 691 companies, compared to Europe's 486. The rise for the BRICS even in the six years studied here is notable. In this period, China has outstripped Japan, and the BRICS combined were just over 60 per cent of the number of US companies. They included 57 Indian, 27 Russian, 24 Brazilian and 14 South African companies; and China had 5 companies in the top 10 and 13 in the top 100. Unlike Russia, whose top companies were predominantly in energy extraction, China has a good spread of companies across the economic sectors. I return to the significance of these figures below; here we note that significant changes have taken place in the economic power of the traditional core members of the world economy; the EEU, with only 28 top companies in 2015, is a minor economic player.

The aggressive trade sanctions towards Russia have had the effect of reinforcing the rise of a geo-political bloc based on the Eurasian Union and the BRICS, especially China. The geo-political consequences of Western policy push the members of the Eurasian Economic Union to the east, to the strengthening of non-Western associations of states such as the BRICS and the SCO. In 2007, they formed a Development Bank which is potentially an alternative to the World

Bank. At the 2015 Ufa summit, the EEU has (or will) set up free trade areas with Vietnam, Egypt, India, Israel, South Korea, Chile and South America. For countries in the semi-core of the world system, regionalism need not entail being absorbed into the hegemonic bloc of the G7 countries. China, Russia, India, Brazil and Venezuela and constituents of regional groups (Shanghai Cooperation Organisation, the Eurasian Economic Community, MERCOSUR, and ASEAN) can strengthen their position against hegemonic powers. The growing power of its economic base gives such countries political influence and military power. While not matching the armed forces of the USA, when combined these countries also have considerable military power.

How the Post-Socialist States fit into the World System

Following the dismantling of the state socialist political and economic system, post-socialist societies have developed along different trajectories to become part of the capitalist world system. After the establishment of independent nation states, all the post-socialist societies subsequently have joined or formed regional groupings. Regionalisation is a consequence of the weakness of nation states against the power of transnational companies as well as a defence against, or the extension of the influence of, the power of hegemonic states. The membership of regional groupings defines their place in the world economic and political system.

How one analyses the 'world system' of states is contentious. In Immanuel Wallerstein's paradigm, market relations are the predominant form of regulation of the world-economy which functions as a single economy system (it is a world-system, rather than a world system (Wallerstein, 1979, p. 13))⁴. The world economy is usually a three-fold analysis of core, periphery and semi-periphery. The core is composed of the leading industrial and post-industrial states in which the dominant multi-national corporations are located. These countries currently share to a greater or lesser extent the values of neo-liberalism and the institutions of electoral democracy. The military-economic core of the world system is composed of a hegemonic block dominated by capitalist interests in the USA. In Wallerstein's

⁴ Wallerstein claims that the world-economy economy included the 'entire world, including those states ideologically committed to socialism [then the Soviet bloc and China]'. (Wallerstein, 1979). On the unity of the world-system see p. 271.

approach, the corporations located in these countries are driven by the need for economic accumulation (profit) which they extract from the semi-periphery and periphery². The core states exercise 'ideological hegemony' – predominantly neo-liberalism (Hettne, 2001, pp. 3-4). Bjorn Hettne and other writers define the regions within the 'core' as Europe (the EU), North America (NAFTA) and East Asia – 'the Triad'. The 'new regionalism' approach associated with writers like Hettne brings out the importance of regions defined by non-economic as well as economic features – forms of social identity; religious, political and social values; historically based conceptions of state power. Regions become successors to nation states to give greater political security as well as economic density. They are driven not only by economic interests but held together by national and religious identities. The European Union is held together economically by the ideology of neo-liberalism, and politically by democracy promotion; it is weakened by having no single language, religion or social identity – indeed, it has a history of internal wars based on national hostility. Eurasianism is a civilisational concept with common language, national, religious and statist components.

The semi-periphery (or intermediary regions (Hettne, 2005, p.279)) is formed from a group of countries which possess their own national corporations but are concurrently subject to exploitation from multi-national companies – often enabled by the political power of foreign states. Such formations are unstable and, according to Wallerstein, due to the superior form of accumulation of the core countries (as well as their military capacity), they are unable to continue as separate formations and are brought into the dominant core or go to the periphery. The transition of the former state socialist societies of Eastern Europe to New Member State status of the European Union would be an example here. But in this case, they indicate an unexpected phenomenon – they have become independent countries within the core region which are analogous to declining areas (such as Michigan State) in industrialised countries.

The weakness of these approaches is that neither Wallerstein nor Hettne give sufficient attention to the diversity of, and conflict between, regions within the core and alliances with regions in the periphery. They are unable to explain the rise of states which challenge the dominant states in the hegemonic core. Regional geo-political interests may overcome the global interest of corporate business. Assumptions, based on conceptions of a unitary political and economic hegemonic bloc are no longer valid. The rise of China and the BRICS presents a challenge to the

hegemonic core. Such countries are less exposed to global capitalist interests and have a potential for internally led economic development. The leaders of the EEU and China can adopt a more independent policy in international affairs and promote domestic national geopolitical interests. The tensions between the Russian leadership and leading Western nations also reflect the attempts of the Russian leadership to maintain a Russian national presence in strategic industries. Such economic and geo-political differences lead to the exclusion of semi-core countries from the economic (EU) and military organisations (NATO) of the dominant core.

The 'core' of the world system has many parts. There is a 'hegemonic bloc' dominated economically, politically and militarily by the United States. Within this bloc are a number of elite subordinates. The new 'member states' of the European Union are nation states dependent on institutions and values shaped by the dominant core members.

Rather than a unitary core around the USA, there is a growing diversity promoted by the EEU and the BRICS and a fragmentation of the dominant 'core' states which are divided by economic and political blocs. The statist character of China and Russia may restrain their own transnational companies from full integration into the world economy and concurrently, the USA and EU may discriminate against their affiliates. Such formations have (or may develop) their own specific national or state capitalism (some may have socialist characteristics). Whatever their economic complexion, they have different political and social identities to those of the hegemonic core members.

We might distinguish between an incumbent hegemonic core and an ascendant semi-core. The term, semi-core, captures the economic and political status of countries like China, Russia, India, and Brazil. The theoretical underpinning of the 'semi-periphery' in the Wallerstein perspective is predicated on countries that have national companies and are also subject to exploitation by imperialist transnationals. Semi-core, however, refers to countries which have their own transnational corporations, are hosts to foreign corporations and concurrently have their own national companies. These economies are subject to reproduction without falling into the periphery or joining the dominant core.

For countries in the semi-core of the world system, regionalism does not entail adopting the principles of neo-liberal globalisation, but enables groups of states to strengthen their position against hegemonic powers – if they so wish and if they need to. Regional blocs such as Eurasia and the SCO may develop a form of state led developmental capitalism based on principles different to neo-liberalism (Vayrynen, 2003, p. 25-51; Molchanov, 2015, p. 154).

The unitary capitalist ‘core’ has broken down. In the post-socialist countries, developments such as the formation of the Shanghai Cooperation Organisation⁵, the Collective Security Treaty Organisation⁶, the Eurasian Economic Community⁷ and the Organisation of Central Asian Cooperation⁸, are evidence of the rise of regional economic and political blocs. Latin American countries, such as Brazil, Cuba and Venezuela (MERCOSUR), constitute a trading bloc having less dependency on the hegemonic capitalist core.

Within the ascendant semi-core are contradictory economic dynamics. A growing number of transnational corporations in countries like Russia and China favour neo-liberal policies which would facilitate their expansion and the repatriation of company profits (from which states also benefit somewhat). While China as well as the Eurasian states are less exposed to global capital and have a potential for internally led economic development, they also contain neo-liberal interests which derive from domestic companies seeking a status in Western markets as well as politicians and intellectuals driven by liberal ideology. The possibility of the EEU becoming a ‘stepping-stone’ (as Hettne has put it) to the dominant core cannot be ruled out. The EU and NAFTA type of region is essentially a means to promote neo-liberal policies of market competitiveness and to contain member states in the world economy dominated by Western companies. Adopting a programme of free movement involving goods, services, labour and capital limits the powers of nation states to pursue a developmentalist policy independent of market indicators.

A more limited form of regional association or multinational agreements would be better

⁵ Composed of China, Kazakhstan, Krygyzstan, Russian Federation, Tajikistan and Uzbekistan.

⁶ Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

⁷ Russia, Kazakhstan and Belarus.

⁸ Russia, Turkmenistan, Tajikistan, Kazakhstan, Uzbekistan and Kyrgyzstan.

suited to further development in the Eurasian states. The economic model of the European Free Trade Area, with limited political powers and other forms of cooperation, such as intergovernmental agreements and bi-lateral links with third parties, such as other members of the Shanghai Cooperation Organisation might be more appropriate. Other forms of regional integration, cultural and social in form, could be pursued along the lines of the British Commonwealth. The British Empire adopted forms of Commonwealth (or Imperial) Preference which involved reciprocally-enacted tariffs and free trade agreements which took into account the different interests of the Dominions and colonies. As well as stimulating intra Empire trade, it also shielded the UK from foreign competition. Such a regulated regional association would be able to develop an alternative value system to that of neo-liberal global capitalism, with a greater emphasis put on economic development and social security – the provision of employment, more equal distribution of income and wealth, less poverty, and the expansion of local and regional industries. These objectives cannot be achieved under a neo-liberal world economy.

A crucial political variable is the extent to which the Eurasian Union's energy companies remain under government ownership and control. Greater foreign ownership would shift the balance of economic forces in the direction of neo-liberalism and to an assimilation into the hegemonic core. In China, one witnesses a hybrid system with important divisions contained by, and reflected in, the Communist Party of China. There is a strong political faction which seeks further movement into the world neo-liberal economy and a strengthening of market principles. On the other hand, this group is confronted by a more traditional collectivist faction supporting socialist public ownership and development of state welfare. Crucially, if this faction can regain hegemony then China will move away from the neo-liberal tendency and policy would become more national and possibly state socialist in form.

One likely future scenario for the EEU is an enhanced form of regional economic organisation, along the lines of a strengthened Shanghai Cooperation Organisation which legitimates both international and national accumulation for their own national companies. The puzzle here for economic and political policy is to devise a regional association to give its members greater mobility of the factors of production while concurrently furthering a national developmental policy.

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Endnotes

¹ Definitions of groups of countries by the IMF have a geographical base. The definitions used in this paper are: Asean – 5: Indonesia, Malaysia, Philippines, Thailand, and Vietnam. The Commonwealth of Independent States: 12 countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

The EU 28: 28 countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Romania, and United Kingdom.

BRICS: Brazil, Russia, India, China, South Africa

Major advanced economies (G7): 7 countries: Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

² Countries of the periphery have no transnational corporations. Their economies are based on

agriculture and the primary sector and much of production is for direct use rather than for exchange on the world market. They possess small national companies and host subsidiaries of the transnational companies which export commodities (usually in the form of primary materials). They are dependents of the core and to a lesser extent the semi-core countries. Politically they are pre-modern in character. They are not part of the modern world system of global military alliances but experience internal civil wars.